

STATE OF CONNECTICUT
MUNICIPAL ACCOUNTABILITY REVIEW BOARD
REGULAR MEETING MINUTES

Meeting Date and Time: Thursday, March 7, 2019 10:00 AM – 12:30 PM

Meeting Location: State Board of Regents Boardroom, Ground Level, 61 Woodland Street, Hartford, CT

Members in Attendance: Secretary McCaw, Deputy Treasurer Savitsky, Matthew Brokman, Patrick Egan, David Walker, Scott Jackson, Robert White, Tom Hamilton, Mark Waxenberg, Stephen Falcigno (phone)

Staff in Attendance: Julian Freund, OPM; Alison Fisher, OPM

Agenda

- I. Call to Order & Opening Remarks:
Secretary McCaw called the meeting to order at 10:06 AM. She introduced Deputy Treasurer Linda Savitsky. Ms. Savitsky described her background in working with distressed municipalities and said she is looking forward to serving on the MARB.
- II. Public Comment* Period
Kevin Campo, of West Haven, indicated his support of a transition to the State Partnership health plan and encourages the City to make the change. He referenced a study by Segal Consulting that projects a savings for the City by switching to the Partnership.
- III. Approval of Minutes: February 7, 2018
A motion to adopt the minutes was made by Mr. White with a second by Mr. Brokman. The motion passed unanimously with Ms. Savitsky abstaining.
- IV. City of West Haven Issues and Items
 - a. Review and Discussion: FY 2018 Audit Report

Joe Centofanti of PKF O'Connor Davies reviewed a summary of the City's 2018 Audit for the board (attached). Mr. White asked if the increase in the City's fund balance could be attributed to the Municipal Restructuring Funds. Mr. Centofanti indicated that is the case, and that the deficit bonds issued by the City also contributed to the positive fund balance. Secretary McCaw asked about what is driving the negative net position in Internal Service funds. Mr. Centofanti attributed the negative balances to health claims payable and to workers compensation. Mr. Hamilton asked if workers compensation is self-insured, and Mr. Centofanti replied that it is. Mr. Hamilton asked what makes up the claims payable in the medical internal service fund, and Mr. Centofanti explained it is the IBNR. Ms. McCaw asked how these figures compare to last year. Mr. Centofanti explained that the prior year's audit did not break out the internal service funds the same way in the prior year, making comparison difficult. Mr. Walker asked if the audit included a footnote about the state aid. Mr. Centofanti said that the state aid is shown as a revenue item.

Mr. Walker raised issues the City has with negative cash balances and with segregation of duties, including in payroll. He suggested the payroll issues need to be addressed immediately. Secretary McCaw asked about the Management Letter that is typically issued along with the audit report. Mr. Centofanti responded that the focus was on completing the financials within the timeframe.

Members discussed the City's funding for health benefits and whether a claims margin is factored into budgeting for medical benefit costs. The City began the practice of including a claim margin in the current year. Mr. Walker noted the \$208 million liability for retiree health benefits, and suggested steps need to be taken to ensure the reasonableness of the benefit and adequacy of funding. Members discussed funding for OPEB which the City has been funding on a pay-as-you-go basis. Mr. White inquired as to when the cost of continuing on a pay-as-you-go basis would be unmanageable. Secretary McCaw suggested following up with the actuary on that question to determine when there would be a significant jump in health insurance costs. Mr. White asked about the contractual provisions for retiree health. City Counsel, Lee Tiernan responded that retirees are in the same position as active employees. Mr. Egan suggested compiling the relevant language from each contract to determine retirees' eligibility for benefits based on retirement date. Members discussed eligibility provisions for pre-Medicare retirees and benefits for retirees upon reaching Medicare eligibility.

Mr. Hamilton asked about how pension assets are managed, why the Police and Fire pension assets are not pooled for investment purposes, and why the Fire pension fund costs are increasing at a higher rate than the Police. The City will include these in follow up items for the actuary. Members discussed the ADEC and noted that it is fully funded in the current year and will need to be fully funded going forward. Mr. White raised concerns about the independent districts' obligations and the possibility of the City having to assume Fire service in the event of a budgetary crisis for one or both districts. Secretary McCaw responded that OPM counsel will work with the City on figuring this out.

Secretary McCaw asked Mr. Centofanti about any areas of concern he has with the City's process for completing the audit and ways to improve timeliness. Mr. Centofanti replied that much of the delay was related to OPEB reports, but that the City's financial records were in good shape. He also indicated the Finance Department has too few people. Mr. Egan asked how he arrived at that assessment. Mr. Centofanti replied it is based on his observations of other municipalities. Mr. Egan asked about steps that have been taken to mitigate the issue. Mayor Rossi replied that they are still looking at processes before hiring additional staff. Mr. Cieplinski said that many processes are manually intensive. Secretary McCaw asked that a plan be put together that identifies the processes that are manually intensive, the Munis modules that are underutilized and a timeline for implementing remedies. Mr. Walker also asked for benchmarking of similarly sized cities.

b. Review and Discussion: Monthly Financial Report: January FY2019

Mr. Cieplinski provided an overview of the City's budget status as of the end of January. Overall, the City is projecting an end of year surplus of approximately \$3 million. Mr. White pointed out that, absent the Municipal Restructuring Funds, the City would be running a

significant deficit. He asked what the City is doing to shrink that. Mr. Cieplinski replied that the departmental budget requests for FY 2020 are being reviewed by the Mayor currently and the City is aiming to hold expenditures steady. Mr. White asked if the City had resolved its invoicing issue. Mr. Cieplinski indicated the City is still working on the requisition process.

c. Update re: MOA Compliance

Mr. Freund reviewed a chart outlining the City's current compliance with the requirements for restructuring funds. Mr. White asked if a presentation of the Fire Study will be provided at the April meeting. Mr. Cieplinski said that the consultant and the districts are trying to keep the study on schedule. A presentation is still on schedule for April. Mr. Egan suggested options for the consultant in retrieving some of the data requested from the districts. Mr. White referenced the City's plan for achieving budgetary savings through efficiencies and pointed out that the section dealing with medical benefits makes no mention of plan changes. Ms. McCaw indicated that all options for medical benefits savings will be taken up at the committee level. Mr. Hamilton suggested that, if the Partnership plan is pursued, that language be added to the bargaining unit contracts that allows for a return to renegotiations on medical benefits should Partnership plan costs increase substantially in the future. The union contracts in the City of Norwalk include sample language to consider.

d. Review and Discussion re: Non-Labor Contracts (none)

e. Review, Discussion and Possible Action re: Labor Contract (none)

V. Town of Sprague issues and Items

a. Update: Subcommittee Meeting 3/1/19

A summary of the subcommittee meeting held on 3/1 was distributed and discussed. Mr. Walker expressed concern over the issue of who should bear the cost of addressing a cash flow problem created by a one-time event, whether it is through a special assessment on Sprague taxpayers or possibly a loan from the state. He questioned what could be done to prevent a recurrence. Ms. McCaw said that she shares concerns about the precedent that would be set by the MARB granting funds in this situation. She mentioned that the Governor has proposed legislation that would require earlier and more frequent reporting by boards of education to municipal boards of finance and for early detection of fiscal red flags in local government. She indicated that the MARB may be able to assist with the cash flow issue, but would need to be careful about the precedent set.

First Selectwoman Osten provided background on the origins of the problem and steps the Town has taken to cover the deficit. She described problems the Town had in obtaining accurate financial information from the Board of Education under the prior business manager. Mr. Hamilton asked if the Town has conducted a forensic audit and whether insurance could cover some of the questioned costs. Ms. Osten responded that getting assistance from insurers and other authorities has been difficult. She said that the only forensic investigating thus far has been by her office and bookkeeper. Mr. Walker suggested the MARB be on record supporting legislative changes that would help municipalities and

strengthen the role of the MARB. Mr. White suggested the MARB consider temporary assistance to help support some of these recovery efforts, such as electronic discovery, etc. Mr. Egan asked whether assistance from the State police could be requested. Ms. McCaw indicated she could raise the issue with the commissioner. Members discussed internal control improvements, approval procedures and reporting requirements to consider. Ms. McCaw asked that the BOE participate in the next meeting and that reporting by the BOE be included in the monthly financial reporting.

VI. City of Hartford Issues and Items

a. Update: Subcommittee Meeting 2/21/19

An update of the 2/21 subcommittee meeting was provided. The City's OPEB advisor gave a presentation on the OPEB Fund. Segal Consulting provided an analysis of health insurance options for the Board of Education. The subcommittee reviewed two stipulated arbitration agreements for the Federation of Teachers and the Principals and Supervisors Association. The subcommittee also reviewed the Municipal Lawyers Association agreement and recommended the MARB approve the agreement. The subcommittee also reviewed the Mayor's recommendations regarding potential uses of MARB fees.

b. Update: Special Meeting 3/4/19

At the special meeting, the MARB voted to take no action on the Principals and Supervisors Association arbitration award.

c. Review and Discussion: Monthly Financial Report: January FY2019

Ms. Lazauskas updated the board on the status of the City budget as of the end of January. The current budget status is consistent with last month's update and with 5 year plan estimates. Some of the largest variances are projected in the Police and Fire Departments. The Mayor explained that these are related to attrition savings and to some delayed hiring to fill vacancies. He indicated that the variance likely won't be repeated next year as positions are now being filled. The City runs its own academy which serves as a sort of regional academy because spots are often offered to neighboring towns. Mr. Egan asked if the attrition was due to collective bargaining. The Mayor responded that the Police vacancies were largely due to staff reaching retirement age, while Fire vacancies appeared to be in anticipation of collective bargaining.

d. Review and Discussion re: Non-Labor Contracts

i. DATTCO

Health and Human Services Director Liany Arroyo summarized the contract which is a one-year renewal for transportation services for seniors. Services are for residents aged 60 and over providing transportation to senior centers, hospital visits, dialysis appointments, and grocery store visits. The annual cost is \$730,000, funded primarily by the City's General Fund (\$500,000) supplemented by grants from the Greater Hartford Transit District and the Area Agency on Aging. The service is age-based and does not have income limits. The City anticipates going out to bid for the service next year.

- e. Review, Discussion and Possible Action re: Labor Contract
 - i. Municipal Lawyers Association

Mayor Bronin summarized the tentative agreement which covers the period July 2015 to June 2021. The TA provides for 0% wage increases in the first four years followed by 2% increases in FY 2020 and FY 2021. The TA shifts employees to a high deductible health plan and increases employee contributions for health insurance and pension. Mr. Walker asked about how savings are projected if wages increase in the last two years. Mayor Bronin explained that a wage reserve was budgeted for potential increases, and that increased pension contributions further offset salary increases. Mr. Walker made a motion, seconded by Mr. White, to approve the contract. All voted in favor.

- ii. Hartford Municipal Employees Association

Mayor Bronin summarized the arbitration award. This arbitration award is consistent with other City contracts. The award provides for four years of wage freezes, no step increase in the final year of the contract, and the implementation of a high deductible health plan. The contract covers approximately 172 employees. Secretary McCaw noted that 90% of the City's positions were awarded by the arbitration panel. Mr. Walker made a motion to take no action, seconded by Mr. White. All voted in favor.

VII. Other Business

VIII. Adjourn

Ms. Savitsky made a motion, seconded by Mr. Hamilton, to adjourn at 12:48 PM. All voted in favor.